Evil's Good: Book of Boasts and Other Investments

by Simon Cawkwell

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Sample Chapter: EVIL'S BOASTS

"When a man says that his word is his bond . . . Take his bond."
- Evil Knievil, 2001.

It is always hard to find a fraud and to remember that one might have made a mistake as one plunges to gather the harvest of one's forecasting ability. But it is thrilling to realise that the market has been had and that death awaits the stock. The best that I can recall since 1995 are Display.IT, Lanica Trust (Lanica did not die — it just shrunk — and how) and Equisure. Pan Andean was not a fraud but it was a tremendous opportunity. I have revisited Access Satellite, Maxwell, Polly Peck and Spring Ram largely for old times' sake and have also boasted about my triumphs in shorting the (non frauds) at Ashtead and Baltimore.

In the past, I have exposed frauds via a column in Sunday Business and thereafter on the website UK-iNvest but I fear that most editors are too timorous to hire bears these days. Companies — and their lawyers — are far less likely to kick up a stink when faced with a soggy buy puff than when faced with a stinging sell note. These days my only outlet is via a fortnightly webcast on the Internet site www.t1ps.com.

DISPLAY.IT — the textbook fraud
In mid to late 1996, a friend mentioned that he had bought a few shares in Display.IT at the equivalent of 20p (in due course, there was a five for one split — but I here ignore that and confine myself to one set of values to avoid confusion). Display.IT purported to be a financial information services provider with a difference in that it circumvented the need to use Reuters or Bloomberg (services which cost then and still cost something of the order of $25,000 p.a.). The Display.IT customer had merely to pay USD 100 or so and slot in the Display.IT disk and, hey presto, the user's PC was ready to take financial prices off the net in real time.

It was not emphasised that there were in practice substantial further costs to the user by way of stock exchange fees. Nor was it stressed that the disc did not work properly since, as will become clear, these were rather subsidiary considerations. Certainly, when I was told of this service I thought that some miraculous and patented opportunity for the consumer had arisen and it was on that basis that I visited Display.IT's offices in Cannon Street to listen to Peter Levin, the boss, spell it out. I was completely fooled.

So it was that a few weeks later I wrote an extremely bullish article for my column in the original Sunday Business (then controlled by Luke Johnson). For Levin had explained that although sales were relatively slight in this country they were charging ahead in Germany and the US. This was of course another variation of a fraudulently promoted company's operations being elsewhere than where the investor can check claims.

By then, Display.IT was capitalised at around £100m and looked capable of making £20m p.a. a year out and a further £40m another year later. £100m looked a steal and the shares accordingly sat at 630p — having visited 800p.

It was a day or two later that I was lunching with Jim Slater who heard all this and then suggested that I ask myself the same questions again that I had asked Levin and see if I came up with the same answers. Needless to add, I had a Pauline conversion. It was obvious that I could not see anybody at the Cannon Street offices since there was nobody there. It was obvious why the sales to Warburgs had not materialised since the IT manager thought the discs were no good. It was obvious that a friend who had tried the disc thought it was no good — despite buying the equipment specified as ideal by DIT — since the disc was indeed no good. It was obvious that the equipment servicing department/customer query service had no address and only occasionally answered the telephone since, in fact, there was no such department — merely a fellow paid to act as if there was one.

So I sold tens of thousands of shares on behalf of myself and others. It was a no brainer. DIT was quoted on Ofex which is often thought of as a market but which is in fact a dealing facility operated by J P Jenkins. At the time there was quite a trade in DIT and it was relatively easy to sell stock since JPJ had buyers on the other side — in practice these buyers were chums of Levin acting to keep their fantasy going and spurred on by Levin's assurance that Cawkwell was a complete fool and that he was going to get terribly burnt.

Things might have remained there for an irritating period during which I might have been compelled to buy back to close had it not been for a remarkable breakthrough. Levin claimed that DIT had sold a block of disk licences for USD11.5m to Alsina, a company in Luxembourg, which would take over the European distribution of the licences and, most importantly, pay DIT this very sum forthwith. Needless to add the shares recovered their poise after that and it was beginning to look a little squeezy for me and mine.

However, a journalist pal interviewed Levin in front of a reliable witness and where Levin confirmed the figures for the Luxembourg deal and advised that the investors behind Alsina remained confidential but that one of them was Ross Perot, the Texan founder of EDS and presidential hopeful. This was the lead that I required. A solicitor known to me drafted a suitable letter to Perot and I got the reply I really needed when Perot's office stated that Perot was frequently claimed to be associated with fraudulent promotions but that this was the largest yet.

Not that I particularly care about those defrauded by Levin, I nonetheless took it upon myself to report his conduct to the DTI eighteen months after DIT had gone bust — just to see if they would do anything. It transpired that by then Levin had departed for the US. A fellow from the Serious Fraud Squad visited me (why on earth take such trouble? What's wrong with a telephone call?) and advised that the government's chief concern was the money laundering behind the financing of DIT. Why they could not be bothered to deal in good time with the most blatant and persistent breaches of S47 of the Financial Services Act 1986 that I have ever encountered is utterly beyond me.

Lanica Trust

Lanica started life as The New Guernsey Investment Trust and by the time it came to my notice had approximately £3m in cash in its balance sheet and nothing else. However, the interesting feature was that it was capitalised at around £100m. A dealer, one Andrew

Regan, had persuaded various institutions to take stakes in Lanica as a condition of their providing mezzanine finance for Lanica to take over substantial operating assets of the Co-op. Quite how a £100m capitalisation is achieved in these circumstances is and was beyond me. So, naturally, I sold it short. I took the trouble to write a piece in my Sunday Business column and, I believe as a result of this and various other expressions of astonishment, the LSE suspended the quotation. The effect of that was to remove a public valuation of the very currency which Regan was trying to offer for his schemes.

Thereafter, matters developed into pure farce with directors of the Co-op meeting Regan's men in motorway cafes to hand over confidential documents which Regan knew or ought to have known were not theirs to release. Two directors subsequently got the sack. Their defence would be that the Co-op was only heading downhill and that it would be best to get on with breaking up the organisation while there was something to break up. Although I sympathise with their stance, they had nonetheless contracted with the Co-op's members to put such a point of view to them rather than to anybody else in the first instance.

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